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C O N F I D E N T I A L SECTION 01 OF 05 KUWAIT 004214

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STATE FOR EB/ESC/TFS LLAMBERT, S/CT TKUSHNER, NEA/ARPI SWALKER, NEA/ARPI RSMYTH, NEA/RA LLEE, IO/PSC BFITZGERALD, TREASURY FOR TFFC DGLASER AND OFAC FOR RWERNER, NSC FOR JZARATE AND THINNEN, LONDON FOR LTSOU, MANAMA FOR JBEAL

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SUBJECT: TERRORIST FINANCE: SUMMARY OF OFAC DIRECTOR WERNER'S MEETINGS WITH GOK OFFICIALS

REF: KUWAIT 4111

Classified By: Ambassador Richard LeBaron. Reasons 1.4 (b) and (d)

¶1. (C) Summary. On September 21, OFAC Director Robert Werner met separately with GOK officials from the Central Bank and Ministries of Finance, Foreign Affairs, Social Affairs and with Kuwait Customs to discuss continued bilateral cooperation on combating terrorist finance and money laundering (CTF/AML). Werner underscored the importance of legal reform to criminalize terror finance and urged improved internal GOK coordination. He welcomed GOK feedback on OFAC policies and regulations to help overcome any procedural challenges. GOK officials reaffirmed the government's commitment to legal reform to further strengthen the country's CTF/AML regime. They welcomed USG technical assistance and cited concerns with certain designation modalities, including the inherent errors in English listings of Arabic names. Werner offered to explore other alternatives, including possibly listing names in the original Arabic. End Summary.

¶2. (C) On September 21, OFAC Director Robert Werner, accompanied by other Embassy and Treasury officers, met with the following GOK officials to discuss ongoing USG-GOK efforts to combat terrorist finance and money laundering:

--Riad Al-Hajri, Attorney General for Public Monies Prosecution, Public Prosecutor's Office
--Sheikh Salem Abdulaziz Al-Sabah, Central Bank Governor
--Faisal Al-Hajji, Minister of Social Affairs and Labor
--Khaled Al-Muqarnas, Director for Coordination and Follow-up, Ministry of Foreign Affairs
--Mustafa Al-Shamali, Under Secretary, Ministry of Finance
--Ameen Al-Mudarres, Assistant Director General, Kuwait Customs.

Meeting with Attorney General

¶3. (C) In his meeting with Riad Al-Hajri, the Attorney General for Public Monies Prosecution at the Public Prosecutor's Office (PPO), Werner reaffirmed the long-standing ties between both countries, calling for continued bilateral cooperation on CTF/AML. Werner solicited Al-Hajri's input on the GOK's Financial Intelligence Unit (FIU), including Egmont Group membership; the PPO's access to suspicious transaction reports (STRs); the status of the pending revision of the 2002 AML law; and the status of foreign contract judges in Kuwait.

¶4. (C) Al-Hajri noted that the 2002 law on AML failed to clearly define the FIU's role, resulting in the Council of Minister's (cabinet) decision to incorporate the FIU in the Central Bank of Kuwait. He commented that unlike the PPO, the FIU was merely an administrative entity that lacked any legal powers. Al-Hajri complained that lack of Egmont Group membership eroded the FIU's ability to access timely information from abroad, ultimately impacting his own office's ability to prosecute. (Note: Egmont membership requires FIUs to share information freely. Current GOK law prohibits Kuwait's FIU from doing so without Public Prosecutor approval. End note.) He lamented that "Egmont doesn't talk to us" and also alleged that FIU cooperation with his office was lacking and that the PPO did not have direct access to STRs, claims later refuted by the Central Bank Governor.

¶5. (C) Werner stressed that without legal reform, the GOK's ability to access timely and relevant information from Egmont and other entities would be limited. He underscored that information sharing and access to such organizations were critical to OFAC's own CTF/AML efforts. Al-Hajri concurred and reaffirmed the GOK's commitment to enacting legal reform, pointing to the ongoing drafting efforts of the National Committee to Combat Money Laundering and Terrorist Finance (NC). Al-Hajri explained that the new law was needed to expand the PPO's legal powers, along the lines of OFAC's own broad authorities, as described by Werner. Al-Hajri explained that the new law would incorporate GCC and

international CTF/AML requirements, including Kuwaiti membership in Egmont. However, he commented that there were "some" elements who were keen on stifling reform. Al-Hajri agreed to take up Werner's offer of technical assistance on the new legislation once a draft is completed.

¶ 16. (C) Regarding foreign judges in Kuwait, Al-Hajri explained that the majority were Egyptian, resulting from Kuwait's continued shortage of judges and long-standing reliance on Egyptian legal expertise. He welcomed any U.S. assistance, including possible legal workshops to help strengthen the Kuwaiti legal sector.

Meeting with Central Bank Governor

¶ 17. (C) In his meeting with Sheikh Salem AbdulAziz Al-Sabah, Governor of the Central Bank of Kuwait (CBK), and other CBK officials (Deputy Governor, Heads of On-Site Supervision and AML Units) Werner reiterated his call for continued bilateral dialogue and cooperation on CTF/AML and solicited the governor's input on the pending AML legislation, coordination between the CBK and PPO, CBK actions in support of terror finance designations, and CBK monitoring of exchange houses.

¶ 18. (C) Al-Sabah began by noting the long-standing ties between CBK and OFAC pre-dating September 11, 2001. The governor noted that both institutions were pursuing the same CTF/AML objectives and the CBK would not hesitate to seek assistance from OFAC or other USG entities to further strengthen its efforts. Echoing Al-Hajri's frustration with current AML legislation; Al-Sabah noted that the new draft legislation would address the FIU's role and help eliminate procedural redundancies and streamline intra-governmental coordination and information sharing on CTF/AML.

¶ 19. (C) Al-Sabah refuted Al-Hajri's claims about the lack of cooperation between the FIU and PPO and that the PPO did not have access to STRs, noting that by law, the STRs were required to be sent by banks to the PPO and CBK separately. He clarified that only the PPO can raise a legal case against an individual or entity but that the CBK had full authorization from the PPO to follow-up with any financial institution under question. He noted that the CBK had the authority to freeze both monetary and materiel assets upon receipt of Foreign Ministry authorization.

¶ 10. (C) Al-Sabah explained that the CBK maintains a categorized database of all STRs sorted by banks, exchange houses, investment firms or transaction type and that priority is given to TF/AML regulations, with samples of transactions taken at random to ensure compliance. All banks are instructed to report STRs to the CBK or face "very severe penalties" of no less than 6000 Kuwaiti dinars (approximately \$20,600).

¶ 11. (C) With regard to terror finance designations, Al-Sabah said that the CBK and other Kuwaiti financial institutions rely on MFA notifications, UN and OFAC lists for the latest updates. Al-Sabah voiced concerns with designations in English of Arabic names, citing the probability of mistaken identity and error resulting from incorrect translation or limited information (Note: this issue came up repeatedly in OFAC's meetings with other GOK and banking officials. End Note.) As an added precaution, Al-Sabah noted that CBK name searches are also cross-checked with local civilian identification numbers issued to all Kuwaiti and non-Kuwaiti residents. Werner voiced similar concern with the current practice of listing Arabic names in English. He encouraged the CBK to provide OFAC with additional identifier information as it becomes available and offered to explore the possibility of listing names in Arabic.

¶ 12. (C) On charity oversight, Al-Sabah referred to a 2001 Council of Ministers (cabinet) decision allowing only those charities with GOK authorization to transfer funds abroad. He added that no charities can open bank accounts without the requisite approval and licenses from the Ministry of Social Affairs and Labor, explaining that banks recognize the importance of compliance and cooperation on this issue. As an example, the governor cited the initiative on the part of a local Kuwaiti bank to report to the Central Bank an attempt by the brother of an Al-Qaeda affiliate to open an account.

¶ 13. (C) Werner noted that exchange houses and unofficial "hawalas" posed a potential problem given the challenges of effective oversight and accountability. Al-Sabah pointed out that the CBK maintains a monthly exchange house transaction database and that individual transactions greater than 3000 Kuwait Dinar (approx. \$10,300) must be reported to the CBK. He stressed that the opaque and unreliable nature of hawala networks discouraged the GOK from authorizing the practice in Kuwait. He explained that financial institutions are only authorized to transfer funds to other licensed institutions and not individuals. Al-Sabah commented that both Kuwait and the United States were confronting the same terrorist threats

and that success would be guaranteed only through continued cooperation and vigilance.

Meeting with Minister of Social Affairs and Labor

¶14. (C) Ambassador accompanied Werner to the meeting with Faisal Al-Hajji, Minister of Social Affairs and Labor, to discuss the ministry's role as the primary GOK oversight authority of local charities. Werner acknowledged the important role played by charities in every society and called for vigilance to ensure that their good work was not undermined by nefarious elements seeking to exploit institutional weaknesses. He encouraged close dialogue and cooperation and welcomed Al-Hajji's input on the GOK's charity oversight measures.

¶15. (C) Al-Hajji praised the GOK's ongoing close ties with the U.S. and welcomed the opportunity to exchange suggestions and ideas with USG counterparts. He asserted that his ministry had taken all appropriate measures to control and supervise charities, including the removal of approximately 95 charity donation kiosks. He explained that as an added measure, authorized charities would only be allowed to collect zakat (alms) during the month of Ramadan through the sale of government-issued coupons (see reftel for details). Al-Hajji said that authorized charities were on board and that a public relations campaign was underway to officially announce the new program. He was less enthusiastic about Werner's proposal to have payments for coupons made directly to the ministry, noting that such an alternative would prove too confusing for the average zakat donor.

¶16. (C) He also explained that an external auditing firm would be hired soon to provide monthly reports on charities' income and outflow statements to ensure compliance and accountability. According to the minister, all financial transactions conducted by authorized charities require ministry approval and that any suspicious activities or unauthorized transfers would be reported to the CBK. He said that during the past three years, the ministry had seen no indication of violations by charities (Note: only six Kuwaiti charities and the GOK itself are authorized to transfer funds abroad. End note.)

¶17. (C) Al-Hajji clarified that charities were only allowed to transfer funds to other authorized organizations abroad, not individuals, and that the ministry relied on host country governments, working in coordination with the Kuwaiti MFA, to ensure compliance on the part of its local entities. Both the Ambassador and Werner expressed concern with the GOK's seeming reliance on recipient (and usually poorer) countries to reconcile and regulate their own institutions, pointing out that this was a weak link in the process.

¶18. (C) Ambassador stressed that the burden was on Kuwait to ensure that its charitable contributions were being spent properly and offered USG follow-up on any suspicious transactions. Al-Hajji welcomed U.S. assistance in general but noted, in the GOK's defense that fund transfers for specific aid projects abroad were easier to control and that visiting delegations from the ministry's charity oversight office traveled abroad periodically to monitor progress for such projects.

¶19. (C) Al-Hajji said that charities were under intense scrutiny by the government and that he remained committed despite the charities' widespread complaints of excessive regulations. He said that the ministry's goal was to have 100% oversight of charities and that the large charities had "put all their cards on the table." He expressed general satisfaction with their cooperation and noted that he has urged charities to focus more of their donations domestically in support of Kuwait's own poor and needy.

¶20. (C) Werner praised the minister for his "clear and admirable commitment," echoing his views on the challenges posed by stringent charity oversight. Werner suggested that charities would find the OFAC list a useful screening mechanism for potential donors and recipients (Note: The Minister did not understand the suggestion on the use by the charities of the OFAC lists. Embassy will follow-up with his staff.)

Meeting with Foreign Affairs Ministry

¶21. (C) In his meeting with Khaled Mohammed Al-Muqames, Director of the MFA's Coordination and Follow-up Office, Werner provided an overview of OFAC responsibilities and the USG terror finance designation process. He solicited Al-Muqames's feedback on the MFA's notification process for designations, encouraged MFA feedback on procedural issues arising from designations problems, voiced concern about the vulnerabilities of charities abroad, and urged continued cooperation on information sharing.

¶22. (C) Al-Mugames explained that his office received terrorist designation notifications from both the UN and the U.S. Embassy and that such notifications were forwarded in writing to the CBK the same day as received. Echoing similar concerns raised by the Central Bank Governor, Al-Mugames requested additional identifiers for Arabic designees, including, e.g., the names of mothers or other relatives, to allow for more accurate identification by government and banking authorities.

¶23. (C) With regard to charities, Al-Mugames said although the GOK had not received any evidence linking Kuwaiti charities to terrorism, Kuwaiti embassies had been instructed to track the activities of Kuwaiti charities abroad in order to protect Kuwait's international reputation and prevent exploitation by extremists. He expressed the GOK's interest in "widening our cooperation" on charity oversight. Al-Mugames echoed USG concerns in the war against terrorism, stating that Kuwait itself was a target. He reaffirmed the need for close cooperation, and observed that when it comes to defeating terrorism "we speak the same language."

Meeting with Finance Ministry

¶24. (C) In his meeting with Mustafa Jassem Al-Shamali, Under Secretary at the Ministry of Finance, Werner solicited

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Al-Shamali's views on the pending revision to the draft AML legislation, stressing the importance of Egmont membership; encouraged closer GOK inter-governmental coordination on CTF/AML efforts and provided an overview of OFAC activities, including efforts to target counternarcotics and weapons of mass destruction financial networks.

¶25. (C) Al-Shamali reaffirmed the GOK's commitment to cooperation on CTF/AML measures and praised the efforts of the National Committee and the Central Bank in the revision of the pending draft legislation. He said that the new draft would take into account the recommendations of all relevant GOK ministries and that legal reform would help address any coordination problems between GOK entities.

¶26. (C) He explained that the FIU, currently housed in the Central Bank, was originally an entity of the Finance Ministry. He said internal regulations, issued by the Finance Ministry in July, articulated the procedures for supporting the National Committee's drafting efforts and the subsequent implementation of the revised AML law. Al-Shamali pointed to close cooperation between U.S. and Kuwaiti Customs. (Note: Kuwait Customs falls under the authority of the Finance Ministry.)

Meeting with Kuwait Customs

¶27. (C) In his meeting with Ameen Al-Mudarres, Assistant Director General for Kuwait Customs (KC), Werner underscored the important role played by customs agencies in the broader CTF/AML effort, pointing to OFAC's own fruitful relations with U.S. Customs in successfully targeting terror finance and money laundering networks. Al-Mudarres called for continued bilateral cooperation and praised his agency's close cooperation with U.S. Customs, pointing to the valuable support being provided to Kuwait Customs by two embedded U.S. advisors. He explained that KC's new Money Investigative Unit (guided by a U.S. Customs Advisor) was already having a positive impact against money laundering. Al-Mudarres noted that KC's membership on the National Committee to Combat Money Laundering and Terror Finance allowed the agency to play a central role in the broader CTF/AML effort. He was appreciative of ongoing U.S. training opportunities afforded by the International Visitors Program and reaffirmed KC's commitment to making headway against money laundering.

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